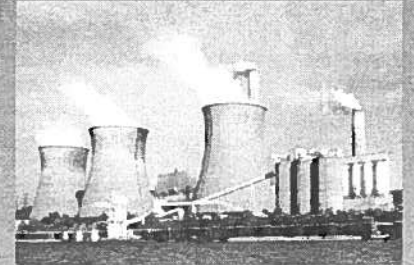


# Expanding Electric Competition: A Reliable Solution for Michigan's Energy Future

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# The Time to Expand Electric Competition Is Now

## ■ **Necessary Features of Effective Electric Competition:**

- No caps or restrictions on shopping; open to all customers
- Corporate separation (generation separated from “wires” business)
  - Asset transfer or divestiture
  - Ensure utility “wires” businesses remain financially strong, while giving generation owning affiliates a fair chance to compete
- Wholesale auctions for default supply
  - Ensure rates reflect market prices for customer choosing not to exercise choice
  - Remove incentive for utilities to favor competitive affiliates
- Municipal Aggregation
  - Helps bring benefits of choice to all customer classes

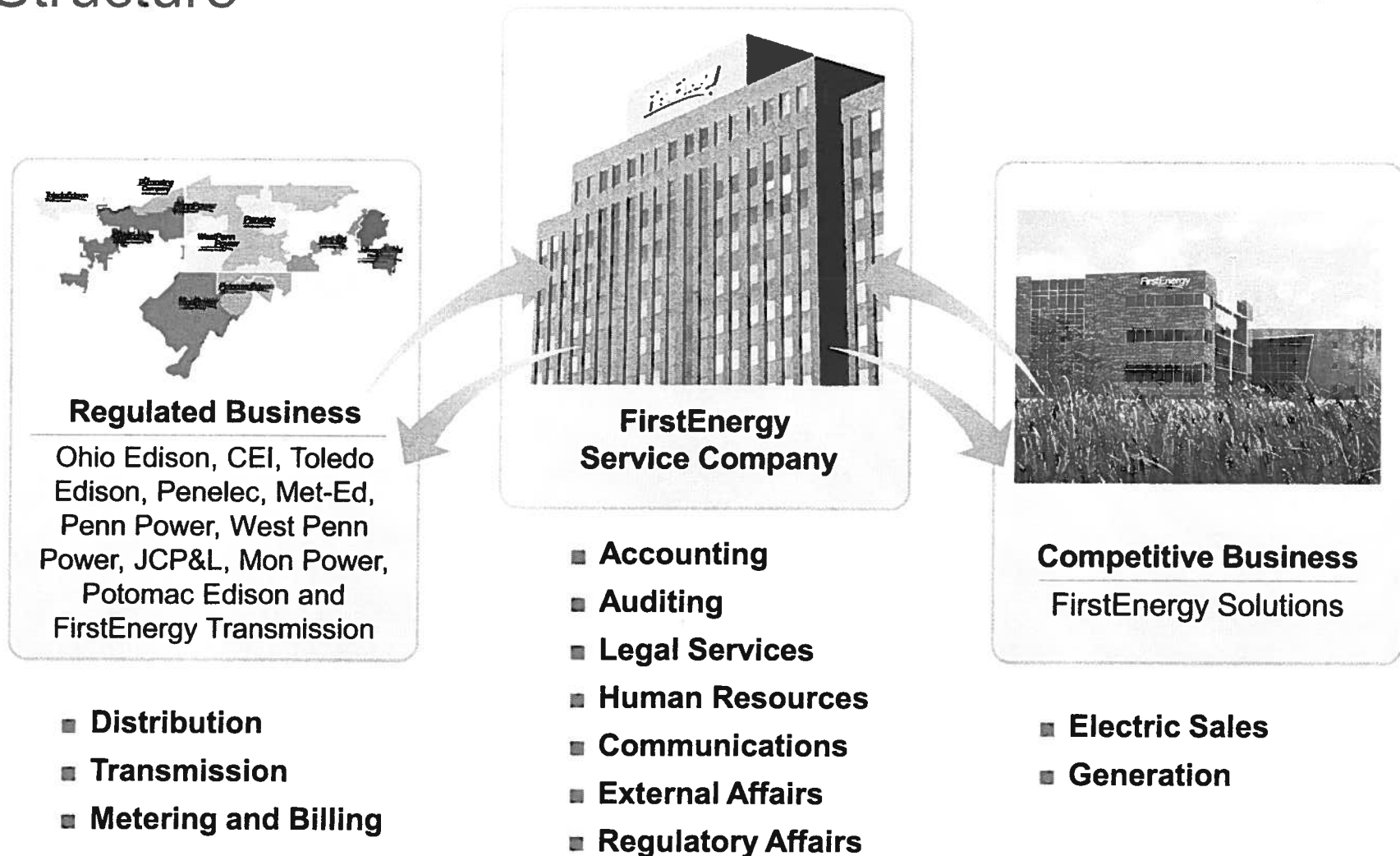
# Michigan Rates Are Not Competitive

- **Average Electric Rates in Michigan are highest in the region**
  - Harms Michigan's economic competitiveness, and costs jobs
  - Michigan rates are rapidly increasing at a time when wholesale market rates are at their lowest levels in decades - these higher than market rates operate like a **TAX** on each and every customer held captive to utility supply
- **Since 2008 Michigan's rates have risen to well above the national average**
  - Michigan's pull back from competition in 2008 hurt Michigan
- **The MPSC notes in its 2012 report on electric competition:**
  - "Michigan's weighted average residential retail rate was below the national average from 2001 to 2008 and has been above the national average since 2009."
- **These high rates align with passage in 2008 of PA 286 establishing the current cap structure.**

# Customers Want A Choice

- **The COMPETE Coalition estimates unrealized savings of customers in the queue of \$180 million annually**
- **Surveys demonstrate 82% of MI customers want choice**
- **Competitive suppliers have to earn their customers every day like every other producer in every other industry**
  - Customers are not captive and are not a given like they are under regulated monopolies

# Corporate Separation: FirstEnergy's Corporate Structure



## Default Service Through Wholesale Auctions

- **Auctions are held to serve default customer load**
- **Brings the benefit of market pricing to all customers**
- **Removes utility incentives toward anti-competitive behavior**

# Municipal Aggregation: Bringing Choice to Smaller Customers

- **Municipal Aggregation is a tool to ensure that expanding electric competition benefits all customer classes**
- **FES serves 2 million customers through municipal aggregation programs in multiple states**
  - Giving back: FES Powering Our Communities program provides direct grants to municipalities
- **NOPEC, one of the nation's largest municipal aggregations, estimates that by 2019 its customers will have saved more than \$300 million, including \$175 million already saved**
- **An Illinois Commerce Commission Report showed municipal aggregation savings of \$16.4 million in the first five months of 2012.**
  - Doesn't include savings for Chicago and 300+ other communities that came later

# Dispelling Myths About Electric Competition

## ■ **Some Popular Myths:**

- Expanding Competition will destroy the financial health of Michigan utilities
- Competitive electric markets are less able to attract new generation investment than regulated states.
- Electric Competition will cost Michigan jobs
- States with competitive electric markets have less reliable electric systems



# Expanding Competition Will NOT Destroy Michigan Utilities

- **Corporately separate distribution utilities will remain stable**
  - FES (OH, PA, NJ, MD utilities), Integrys (WPS), Constellation (BG&E), PPL Energy Plus (PPL), ConEd Solutions (Consolidated Edison)
- **Michigan utilities' generation units will not shut down due to retail competition**
  - Will still obtain revenue by selling generation at wholesale or off-system
  - Will have an equal opportunity to compete in the retail market
- **Some Michigan utilities support competition by competing in wholesale auctions and providing retail service in other states -- yet they oppose competition when it is proposed in their own backyard**
- **It isn't all or nothing**
  - DTE and Consumers received \$2 billion for their generation in compensation for shopping under PA 141, now only 10% get any benefit.

# With Competition Generation Investment Continues

- **Competition increases generator efficiency and output, enhancing reliability with risks borne by shareholders not captive ratepayers**
- **The Cost of Inefficiency = Lost Jobs & Economic Opportunities**
  - A 2011 study on Ohio electric costs found 1,200 new jobs are created with every \$100 million dollar reduction in above market generation costs.
- **Generation investment in states with full retail competition**
  - Between 2000 and 2008 over 4,000 MW of new generating capacity was built in Michigan
  - In Ohio since the advent of electric competition in 1999 more than 10,200 MW of new generation added
    - Another 2,100 MW scheduled to be built by 2016
  - COMPETE Coalition estimates that PA added 8,500 MW of new generation since the passage of the Electric Choice act in 1996

# Competitive Electric Markets Are Reliable

## ■ Michigan is not an island

- Electric reliability is a regional issue and not affected by customer choice
- Region has plenty of generation supply and transmission which ensures reliable energy within region, including Michigan

## ■ Per federal regulations, MISO has implemented a Resource Adequacy construct

- Designed to incent generation construction when and where needed

### Reliability Is Multi-state – Unless You Are Texas

Michigan is part of the Eastern Interconnection with strong transmission ties to the rest of the eastern US and CA region.

